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NOT FOR CITATION

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION**

POLIMASTER LTD., NA&SE TRADING CO.,
LIMITED,

Plaintiffs,

V.

RAE SYSTEMS, INC.,

Defendant.

Case Number 05-01887-JF

ORDER¹ DENYING PLAINTIFFS' MOTION FOR PRELIMINARY INJUNCTION

[Docket No. 30]

Plaintiffs Polimaster Ltd. (“Polimaster”) and Na&Se Trading Co., Limited (“Na&Se”) move for a preliminary injunction. The motion is opposed by Defendant RAE Systems, Inc. (“RAE”). Having considered the briefs, relevant evidence, and the arguments of counsel at the hearing on August 26, 2005, the Court will deny the motion for the reasons set forth below.

I. BACKGROUND

Polimaster engages in the manufacture and sale of instruments and components used to detect various types of ionizing radiation. Na&Se is engaged in the business of licensing the rights for proprietary information and industrial intellectual property to be used in foreign countries. RAE is engaged in the development, manufacture and sale of environmental safety

¹ This disposition is not designated for publication and may not be cited.

1 monitoring devices. Its original emphasis was on gas-detection technology, but it recently has
 2 entered the market for radiation detection devices.

3 **A. Contractual Agreements Between the Parties**

4 In an effort to expand its business to include the radiation detection market, RAE entered
 5 into discussions with Plaintiffs in the fall of 2002. On January 15, 2003, Polimaster, Na&Se and
 6 RAE entered into an agreement entitled “Nonexclusive License for Proprietary Information
 7 Usage” (“License Agreement”). The License Agreement enabled RAE to manufacture and
 8 distribute four Polimaster radiation monitor instruments in the United States and China.² In
 9 addition, the License Agreement required RAE to pay a seven percent royalty to Na&Se on each
 10 subsequent sale of a licensed product.³ The License Agreement provides in relevant part as
 11 follows:

12 1. Terms and Definitions

13 1.2 “Proprietary Information” is a set of Engineering and
 14 Technical documentation as well as manufacture secrets that in the
 15 aggregate with the unique components is necessary and sufficient
 16 for manufacture of the “License Products” (Appendix 2: List of
 17 Proprietary Information);

18 1.3 “Unique Components” is the set of modules, parts and
 19 electronic components with the software, which in the aggregate
 20 with the “Proprietary Information” is necessary and sufficient for
 21 manufacture of the “License Products” (Appendix 3: List of
 22 Unique Components);

23 1.5 “Confidentiality” is observance of the measures for prevention
 24 of accidental or deliberate disclosure of the knowledge related to
 25 “Proprietary Information” and “Unique Components” to third
 26 parties;

27 5. Obligations and Responsibility

28 5.3 The Licensee shall have no right to use the “Proprietary
 29 Information” in other devices developed by him without the

25 ² The four Polimaster products were the Gamma Pager PM1703M, Gamma-Neutron
 26 Pager PM1703GN, Pocket Gamma-Neutron Monitor PM1401GN, and Hand-Held Gamma-
 27 Neutron Monitor PM1710GN.

28 ³ Although the agreement provides that royalties on Polimaster products are to be paid to
 29 Na&Se, the precise nature of the relationship between Polimaster and Na&Se is unclear.

1 Licensor's written consent;

2 8. Confidentiality

3 8.1 The Parties shall be bound to keep "Confidentiality" of the
4 received from the Licensor "Proprietary Information", information
5 appeared in connection with the present Agreement that refers to
the "License Products" manufacture;

6 The parties shall take all the measures necessary to prevent
7 complete and partial disclosure of the specified data or making
them available to the third parties without a mutual agreement;

8 8.2 Only those people from the Licensee's enterprises staff and his
9 cooperative partners that deal directly with manufacture of the
"License Products" shall be aware of the presented "Proprietary
10 Information" or its part.

11 On the same date, Polimaster and RAE entered into a second agreement entitled
12 "Product and Component Buy/Sell Agreement" ("Buy/Sell Agreement"). Pursuant to the
13 Buy/Sell Agreement, RAE was to buy from Polimaster components necessary for the
14 manufacture of radiation monitor instruments. In addition, RAE was to complete the
15 manufacture and/or subassembly of the radiation monitor instruments and sell the finished
16 products to Polimaster. With respect to confidentiality, the Buy/Sell Agreement provides as
17 follows:

18 10. Confidentiality

19 10.1 The parties shall undertake to keep confidentiality with
20 respect to the received from the other Party information,
knowledge and documents concerning the present Agreement and
21 its appendixes.

22 10.2 The parties guarantee that only those people from the parties'
enterprises staff that deal directly with the fulfillment of the
23 obligations provided for in the present Agreement will be aware of
the above-mentioned information.

24 **B. RAE's Alleged Breach of Contract and Misappropriation of Trade Secrets**

25 Following execution of the foregoing agreements, Polimaster provided engineering and
26 technical documentation to RAE pursuant to the terms of the License Agreement. In addition,
27 Polimaster provided training to three RAE engineers regarding the manufacturing process at its

1 office in Minsk, Belarus. In 2003 and 2004, Polimaster received information that suggested that
2 RAE had disclosed and misappropriated its proprietary technology in an effort to develop and
3 manufacture its own radiation detection device. For instance, an employee of one of Polimaster's
4 suppliers informed Polimaster that RAE was inquiring as to whether the supplier could produce
5 and sell to RAE the same type of CsI (Tl) (Cesium Iodide) crystals that the supplier was
6 manufacturing for Polimaster. Plaintiffs contend that the combination of this specific type and
7 size of crystal with Polimaster's manufacturing techniques and technical data was subject to the
8 confidentiality and restricted use provisions of the Buy/Sell Agreement and License Agreement.
9 Also, on January 18, 2004, Polimaster received an e-mail from Shuping Yang of RAE, inquiring
10 as to where Polimaster had obtained certain other types of crystals used in the manufacture of its
11 radiation detector. Plaintiffs assert that Mr. Yang had no authority under the agreements to
12 possess such knowledge. Finally, in or around July 2004, RAE stated its desire to manufacture
13 independently the "Unique Components" that it had been purchasing from Polimaster under the
14 Buy/Sell Agreement. Polimaster did not agree to this proposed amendment.

15 On January 25, 2005, RAE issued a press release announcing that it was taking orders for
16 the GammaRAE II, its new portable radiation detection product, with shipment beginning in
17 April 2005. Plaintiffs contend that the GammaRAE II purports to serve the same purpose as one
18 of the licensed products under the Buy/Sell Agreement. Plaintiffs argue specifically that
19 examination of the GammaRAE II reveals that its internal Gamma radiation detector block has
20 the identical outward and internal unique characteristics as the Gamma radiation detector block
21 in the Gamma Pager PM1703M, a product provided to RAE pursuant to the parties' agreements.
22 Plaintiffs contend that RAE's development and sale of the GammaRAE II constitutes a breach of
23 the License Agreement and a violation of the California Uniform Trade Secrets Act ("UTSA"),
24 Cal. Civ. Code § 3426 *et seq.*

25 RAE claims that the release of the GammaRAE II was the result of independent research
26 efforts, and that it did not misappropriate Plaintiffs' "Proprietary Information" or disclose
27 "Confidential" information to third parties. Moreover, RAE asserts that the information at issue
28 was already in the public domain when Plaintiffs obtained it, and became more readily available

1 as a result of Polimaster's failure to safeguard it.

2 RAE maintains that it adopted a dual approach to entering the radiation detection market:
 3 while Dr. Peter Hsi, Vice President of Technology, and a team of nuclear engineers initiated the
 4 development of radiation detectors in early 2002, RAE simultaneously explored the possibility of
 5 immediate entry into the market as a manufacturer of detectors developed by other parties.
 6 During the negotiations with Plaintiffs in the fall of 2002, RAE sought to understand and
 7 evaluate the Gamma Pager PM1703M device. On November 3, 2002, Hong Tao Sun, Vice
 8 President of Engineering, toured the Polimaster manufacturing facilities in Minsk, Belarus. Dr.
 9 Sun was not asked to sign a confidentiality agreement regarding information revealed to him
 10 during the tour.⁴ Additionally, on November 13, 2002, RAE contracted to purchase fifty Gamma
 11 Pager PM1703M devices from Polimaster, with no restriction or other provision addressing
 12 confidentiality or proprietary information. RAE contends that by the second half of 2002, Dr.
 13 Hsi had identified parts suppliers and purchased the component parts needed to build a radiation
 14 detector prototype.

15 RAE asserts that it successfully engineered a portable radiation detection prototype on
 16 February 5, 2003, less than a month after executing the License Agreement and Buy/Sell
 17 Agreement with Plaintiffs. RAE received Polimaster's engineering and technical documentation
 18 on February 27, 2003, and received training from Polimaster concerning the manufacturing
 19 process on May 24, 2003. By October 2003, RAE had refined its portable radiation detection
 20 prototype for the purpose of integrating it into its existing portable chemical detector product, the
 21 AreaRAE. The technology was then further enhanced for use in, and was eventually unveiled as,
 22 the GammaRAE II, a portable radiation detector.

23 Finally, RAE argues that Plaintiffs exaggerate the similarities between the GammaRAE II
 24 and the Gamma Pager PM1703M device and the significance of any such similarities. It claims
 25

26 ⁴ At one point, the Polimaster representatives stated that Polimaster considered all
 27 information pertaining to manufacture of its products to be protected "proprietary information."
 28 Dr. Sun explained that RAE did not agree that publicly available information was protected. Dr.
 Sun also declined Polimaster's offer to enter into a non-compete agreement.

1 that the GammaRAE II was developed based upon publicly available information and without
 2 Plaintiffs' "Proprietary Information."

3 **C. The Present Action**

4 On May 9, 2005, Plaintiffs filed the instant action asserting claims for breach of contract,
 5 misappropriation of trade secrets and unfair business practices. RAE filed an answer on June 15,
 6 2005. Both the License Agreement and the Buy/Sell Agreement state that in the case of a dispute
 7 between the Licensor and the Licensee under the terms of the agreements, the parties will attempt
 8 to resolve the dispute in arbitration. The arbitration clauses do not provide expressly for
 9 provisional remedies. Plaintiffs filed the present motion on June 17, 2005, requesting issuance of
 10 a preliminary injunction (1) prohibiting RAE from selling and/or distributing the GammaRAE II
 11 and any other products that use Plaintiffs' "Proprietary Information," and (2) prohibiting RAE
 12 from making any additional sales of licenced products that it may have in its possession because
 13 of its breach of the terms of the Buy/Sell Agreement. Plaintiffs request that the preliminary
 14 injunction remain in force until the parties' disputes are resolved in arbitration. Arbitration
 15 proceedings have not yet begun.

16 **II. LEGAL STANDARD**

17 A party seeking a preliminary injunction must show either (1) a likelihood of success on
 18 the merits and the possibility of irreparable injury, or (2) the existence of serious questions going
 19 to the merits and the balance of hardships tipping in the movant's favor. *Roe v. Anderson*, 134
 20 F.3d 1400, 1401-02 (9th Cir. 1998); *Apple Computer, Inc. v. Formula Int'l, Inc.*, 725 F.2d 521,
 21 523 (9th Cir. 1984). These formulations represent two points on a sliding scale in which the
 22 required degree of irreparable harm increases as the probability of success decreases. *Roe*, 134
 23 F.3d at 1402.

24 **III. DISCUSSION**

25 Based upon the facts presented, the Court concludes that Plaintiffs have not demonstrated
 26 a likelihood of success on the merits and have failed to establish that they will suffer irreparable
 27 injury in the absence of an injunction. Moreover, although Plaintiffs have raised serious
 28 questions going to the merits, the balance of hardships does not weigh in Plaintiffs' favor.

1 **A. Probable Success on the Merits**

2 **1. Misappropriation of Trade Secrets**

3 Plaintiffs contend that by engaging in the manufacture and sale of the GammaRAE II,
 4 RAE has misappropriated Plaintiffs' trade secrets in violation of the UTSA. To establish a trade
 5 secret claim under the UTSA, Plaintiffs must demonstrate that the allegedly misappropriated
 6 information has independent economic value to competitors and that reasonable efforts were
 7 taken to maintain its secrecy. Cal. Civ. Code § 3426.1(d); *Religious Tech. Ctr. v. Netcom On-*
 8 *Line Commun. Servs.*, 923 F. Supp. 1231, 1250-51 (N.D. Cal. 1995). Plaintiffs have not
 9 demonstrated that they are likely to meet this standard.

10 In order to qualify as a trade secret, the information "must be secret, and must not be of
 11 public knowledge or of a general knowledge in the trade or business." *Kewanee Oil Co. v.*
 12 *Bicron Corp.*, 416 U.S. 470, 475 (1974). Plaintiffs contend that RAE was provided with
 13 technology and manufacturing secrets pursuant to the terms of the License Agreement. However,
 14 many of the product specifications disclosed to RAE, such as the type of crystal detector, the
 15 alarm algorithm, the time of calibration and the general components of the detector block, are
 16 contained in the Operating Manual for Gamma Pager PM1703M. Plaintiffs do not dispute that
 17 the manual is made available to the public on the Polimaster website without restriction.
 18 Plaintiffs' evidence of misappropriation is similarly inadequate to the extent that Plaintiffs claim
 19 that their trade secrets include the "know-how" required to produce a viable radiation detection
 20 device. Plaintiffs have not adequately identified specific manufacturing procedures employed by
 21 RAE that fall within this category, and instead focus entirely on the similarities in the parties'
 22 finished products.

23 RAE has offered evidence to suggest that Plaintiffs may not have taken appropriate
 24 measures to safeguard the confidentiality of its "Proprietary Information." Polimaster's
 25 agreement to allow RAE engineers to tour its manufacturing facility on November 3, 2002 and its
 26 decision to sell fifty detection devices without entering into any agreements regarding
 27 confidentiality suggest that Plaintiffs may not have undertaken reasonable efforts to safeguard
 28 their purported trade secrets. As a result, Plaintiffs have not made a clear showing that they are

1 likely to prevail on the merits of their trade secrets claim.

2 **2. Breach of Contract**

3 Plaintiffs argue that RAE has breached Section 5.3 of the License Agreement by using
 4 Plaintiffs' "Proprietary Information," without their consent, in order to manufacture and sell a
 5 competing radiation detection device. Plaintiffs claim specifically that the GammaRAE II
 6 incorporates information from Plaintiffs' technical documents—information that RAE agreed
 7 was encompassed within the definition of "Proprietary Information" under the License
 8 Agreement.

9 In order to establish a breach of contract claim, a plaintiff must demonstrate the
 10 following: (1) a contract; (2) plaintiff's performance or excuse for non-performance; (3)
 11 defendant's breach; and (4) the resulting damages to plaintiff. *Reichert v. General Ins. Co. of*
 12 *Am.*, 68 Cal. 2d 822, 830 (1968). The Court concludes that Plaintiffs have not made a clear
 13 showing that RAE breached the contract by utilizing Plaintiffs' technical documents in order to
 14 develop the GammaRAE II. In fact, RAE offers evidence to the contrary, noting that Dr. Hsi and
 15 RAE engineers began developing a radiation detection prototype in the fall of 2002 based on
 16 independent research and publicly available information. In light of the fact that much of the
 17 information was publicly available, Plaintiffs' discussion of the many similarities between the
 18 Gamma Pager PM1703M and the GammaRAE II is insufficient to establish that RAE relied upon
 19 Plaintiffs' technical documentation. In any event, it would be unreasonable for the Court to
 20 construe the term "Proprietary Information" to include information that was made publicly
 21 available by Plaintiffs.

22 In addition, Plaintiffs assert that RAE breached its obligations under the License
 23 Agreement and the Buy/Sell Agreement by disclosing "Proprietary Information" to third parties.
 24 Plaintiffs have failed to present sufficient evidence to support this allegation. Indeed, Plaintiffs
 25 have not provided the Court with any specific information disclosed by RAE to suppliers, nor
 26 have they demonstrated that RAE employees possessed information governed by the
 27 confidentiality provisions of the agreements between the parties. Under these circumstances,
 28 Plaintiffs have failed to present a clear showing that they are likely to prevail on the merits of

1 their breach of contract claim.

2 **3. Unfair Competition**

3 Based on RAE's alleged misappropriation of trade secrets, its alleged breach of the terms
 4 of the License Agreement and Buy/Sell Agreement, and its subsequent sale of the GammaRAE
 5 II, Plaintiffs claim that RAE has engaged in unfair competition in contravention of California
 6 Business and Professions Code § 17200. However, absent an adequate showing that Plaintiffs
 7 are likely to prevail on the misappropriation of trade secrets and breach of contract claims,
 8 Plaintiffs' unfair competition claim does not independently support the issuance of injunctive
 9 relief.⁵

10 **B. Irreparable Injury**

11 Given that Plaintiffs have made a weak showing as to likelihood of success on the merits,
 12 Plaintiffs must present substantial evidence of irreparable injury. A party seeking preliminary or
 13 permanent injunctive relief must demonstrate "irreparable injury" and "the inadequacy of legal
 14 remedies." *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982). "Mere injuries, however
 15 substantial, in terms of money, time and energy necessarily expended . . . are not enough."
 16 *Sampson v. Murray*, 415 U.S. 61, 90 (1974) (quoting *Virginia Petroleum Jobbers Ass'n v. FPC*,
 17 259 F.2d 921, 925 (1958)). Here, even if Plaintiffs were able to establish a likelihood of success
 18 on the breach of contract claim, the Court is not satisfied that Plaintiffs' claim warrants the
 19 issuance of a preliminary injunction given that Plaintiffs' injury is compensable by money
 20 damages.

21 With respect to the trade secrets claim, Plaintiffs rely upon this Court's statement that
 22 "[u]se or disclosure of trade secrets is an irreparable harm which will support the granting of a
 23 preliminary injunction." *Teleflora, LLC v. Florists' Transworld Delivery, Inc.*, 2004 WL
 24 1844847 at *6 (N.D. Cal. 2004) (citing *AT & T Communications of California v. Pacific Bell*,
 25 1996 WL 940836 at *9 (N.D. Cal. 1996)). However, the perceived strength of the plaintiffs'

27 **⁵ Even though the statute does not require Plaintiffs to show a likelihood of irreparable**
 28 **injury, the weakness of Plaintiffs' showing on the merits is determinative.**

1 trade secret claims in *AT & T* provided the basis for the Court's statement. Allegations of trade
 2 secret misappropriation, without substantial underlying evidence, cannot support the issuance of
 3 an injunction. *See AT & T*, 1996 WL 940836 at *10 ("As the court *has found* that defendants are
 4 misappropriating plaintiffs' trade secrets, the further misappropriation of those secrets constitutes
 5 an immediate and irreparable harm which will support the issuance of an injunction.") (emphasis
 6 added). Here, the Court has concluded that Plaintiffs have not made a *prima facie* showing that
 7 RAE misappropriated Plaintiffs' trade secrets.

8 C. Balance of Hardships

9 Although Plaintiffs have not demonstrated that they are likely to succeed on the merits of
 10 their claims, the Court agrees that Plaintiffs have raised serious questions going to the merits. An
 11 injunction then may be appropriate if Plaintiffs demonstrate that the balance of hardships tips in
 12 their favor. *Roe*, 134 F.3d at 1401-02; *Apple Computer*, 725 F.2d at 523.

13 Plaintiffs argue that in the absence of an injunction, RAE will be permitted to continue to
 14 sell radiation detection monitors at artificially low prices because RAE did not incur the
 15 significant research and development costs otherwise required. RAE's sale of such monitors
 16 allegedly will damage Polimaster's commercial reputation while simultaneously enabling RAE to
 17 increase its market share. Moreover, Plaintiffs contend that issuance of an injunction will
 18 preserve the status quo, given that RAE will be required to adhere to its agreements with
 19 Plaintiffs. RAE replies that if an injunction is entered, it will be forced to stop its ongoing sales,
 20 negotiations, and deliveries of GammaRAE II, and they will lose revenues from unfilled orders
 21 and lost anticipated sales. Moreover, the existence of unfilled orders might result in litigation
 22 against RAE, and would strike a blow to its reputation and stock price.

23 The Court concludes that the balance of hardships tips in favor of RAE. The present
 24 record does not support Polimaster's conclusory statement that it will suffer damage to its
 25 commercial reputation. RAE has presented evidence that issuance of an injunction would result
 26 in lost revenue of \$420,000 in FY 2005 and would adversely impact the position of third parties
 27 that have contracted with RAE to purchase its device. The Court does not foresee a reasonable
 28 likelihood that Plaintiffs' asserted "Proprietary Information" will be disclosed in a manner more

1 broad or inconsistent with prior public disclosure. As a result, the Court is inclined to maintain
2 the relative position of the parties pending the conclusion of arbitration.

3 Accordingly, the Court will deny Plaintiffs' motion for preliminary injunction.

4 **IV. ORDER**

5 Plaintiffs' motion for preliminary injunction is DENIED.

6
7 DATED: September 6, 2005

8
9 /s/ electronic signature authorized

10 JEREMY FOGEL
11 United States District Judge

1 This Order has been served upon the following persons:

3 Counsel for Plaintiffs

4 kevin@gardenlawfirm.com

6 Glivaich@dnlc.net

9 Counsel for Defendant

10 John.Flynn@LW.com

11 Ashley.Bauer@LW.com

13 Randall.Kim@LW.com

14 Gia.Casteel-Brown@LW.com

16 Sarah.Bergmueller@LW.com

17 Chona.Watson@LW.com